

# AUDIT PROCESS

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## **GENERAL INFORMATION**

This summary has been prepared to assist you in understanding the role of the City Auditor's Office and its process for conducting audits. This information does not alter the Audit Committee's and the City Auditor's powers and duties established in City Charter and Code.

### **What is the purpose of an audit?**

The City Auditor's office was established to provide an independent review of the City's accountability for public resources. An audit can provide an independent, objective evaluation of financial controls and condition; accuracy of recordkeeping; compliance with applicable laws, regulations, policies and procedures; and/or efficiency and effectiveness of operations. Audits are conducted in accordance with generally accepted government auditing standards issued by the United States Government Accountability Office (GAO).

### **Who decides what will be audited?**

Annually, the City Auditor presents an Audit Plan for the Audit Committee's review and recommendation, and then for the City Council's review and approval.

The City Auditor has the authority to audit any of the City departments, offices, boards, activities and agencies. Recommendations for potential audits may be provided by the audit teams, City staff or management or the Council may direct that an audit be conducted. The City Auditor prepares the annual audit plan after considering such factors as program significance or changes, concerns arising during the year, audit requests, issues identified by previous audits or by other city auditors, past coverage of our audit work and that of the City's external audit firm. The City Auditor uses an Audit Risk Assessment Model to evaluate many of these factors. In addition, potential audit work is prioritized based on availability of staff to conduct the audits.

### **What standards apply to the work being done?**

The City Auditor's Office conducts audits in accordance with generally accepted *Government Auditing Standards* issued by the U.S. Government Accountability Office. (A link to these standards, which are followed by most government auditors and public accounting firms conducting audits of government programs, is available on the City Auditor's website.) To comply with the standards, internal controls and risk must be assessed, audit work must be properly planned, and

sufficient and appropriate evidence must be obtained to address the audit objectives. In addition, the City Auditor's Office must subject itself to an external Quality Control Review (QCR) every three (3) years to ensure compliance with these standards. The most recent QCR results are available on the City Auditor's website.

#### **What is the Audit Process?**

Before an audit report is written, auditors gain familiarity with your program, plan the work to be performed, conduct tests and observations, and discuss the results with you. After a brief background review, the audit team sends the City Auditor's Job Start letter to management and City Council to identify the planned audit objective(s), the assigned auditors, the anticipated timeline and the scheduled Audit Committee meeting date when the report will be presented.

##### *Preliminary Survey*

During the Preliminary Survey phase, the auditor gains familiarity with the program being audited. This is accomplished through reviewing documentation, interviewing staff, and observing processes and facilities. It's very important during this phase to share with the auditors your program's goals and objectives, standards and measures, results, recent changes and other relevant information.

As part of this preliminary phase, the auditor also identifies risks that are inherent to the program being audited and, through inquiries and observations, the internal controls that are in place to address those risks.

Internal control, sometimes referred to as management control, is an important concept in auditing. Internal control is defined in *Government Auditing Standards* as "the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives." In short, internal controls are the measures used by management to ensure the desired outcomes. It's very important during this phase of the audit to communicate how your program is managed and controlled.

##### *Early Audit Termination*

If the City Auditor concludes that internal controls are so inadequate and documentation is so limited that sufficient evidence cannot be gathered to address the audit objectives, the audit will be terminated without completion. However, the City Auditor is required to notify management, the Audit Committee and the City Council of this situation. Early termination of an audit is undesirable and seldom necessary.

### *Fieldwork*

During this phase, auditors conduct tests based on the identified risks and controls related to the audit objectives. Planned tests may be modified or deleted as additional information becomes known. As tests are completed, the auditors will ask you questions to validate the results and identify any supplemental information that you may have. It's very important to understand that audit conclusions are being formed during this phase of the audit. This is the time to ask questions about test results and provide any additional relevant information.

### *Reporting*

When Fieldwork is completed, auditors draft a written audit report that is sent to the audited program's management and to other involved parties, such as Finance & Accounting. Except for unusual circumstances, auditor observations and results will be shared with you throughout the audit. The report structure is guided by *Government Auditing Standards*. The draft report is not a public record yet. It formalizes the audit results into a written report for review and management response. After responses are incorporated, the final public report goes to the Audit Committee and Council.

### **What records or access am I required to provide?**

City Charter and Code specifically state that all officers and employees of the City shall provide the City Auditor free and open access to requested information and records, property, equipment and facilities in their custody. (When the voter-approved City Auditor position was instituted in 1989, the original enacting ordinance contained this provision.) Therefore, during an audit, City staff must be available for interviews within constraints of work hours and workload demands; records must be provided in original form without alteration or redaction unless legally required; and property must be available for inspection.

To emphasize one important point—please do not create documentation to respond to a auditor's inquiry. If an auditor has asked for something that does not exist, please explain that. There may be alternate acceptable documents or other methods of meeting the audit objective.

All original documents provided during the audit will be returned at its conclusion. Effective July 20, 2011, state law exempts the city auditor's audit files from public records. Additionally, confidential information provided during the course of the audit will be labeled as confidential. At the conclusion of the audit, the only confidential documents retained are those needed to support audit conclusions; others obtained during the course of the audit will be deleted or shredded.



**How long will an audit take?**

On average, most audits are currently completed in 2 to 3 months. However, an audit's scope and objectives impact the amount of time required. In addition, City staff's availability and responsiveness as well as reliability of the documents provided can speed or delay an audit's completion. Audits on the annual Audit Plan are scheduled for specific Audit Committee meetings. If deadlines cannot be met, the City Auditor will provide an update to the Audit Committee with reasons for the delay and a revised completion date.

**Who coordinates an audit?**

The City Auditor will designate a lead auditor, who is responsible for coordination of the audit team. Management responsible for the program being audited will be asked to designate an Audit Liaison to work with the audit team in coordinating activities.

**What are the Audit Liaison's responsibilities?**

The Audit Liaison's most important functions are coordination and communication. During all phases of the audit, the liaison will be asked to help the auditors obtain information, schedule meetings, gather data, or obtain responses. The Liaison's assistance can be invaluable in facilitating the auditor locating the right person and the right information, informing the auditor of upcoming schedule conflicts, and minimizing the necessary disruption of the program's regular workload.

The Liaison will also be the primary communication contact during the audit. The Liaison will be kept up-to-date on the audit status and is responsible for keeping management updated. However, management can request an auditor update at any time.

**Does management have an opportunity to respond to the audit?**

*Government Auditing Standards* requires the auditor to request a management response and City Code requires management to provide one. As required by City Code, management must provide a written response, explaining either agreement or disagreement with the results and recommendations, as well as an action plan with a time table. The action plan is to state clearly and concisely how management plans to implement solutions to identified problems. Management's response and action plan are incorporated into the final report.

Fifteen (15) calendar days are allowed to prepare a written response. During this period, auditors will meet with you to discuss the final draft report and review any issues of factual accuracy, tone, and

presentation. This meeting is called the "exit" conference. Depending on the situation, the City Auditor may grant an extension of up to fifteen calendar days for management to prepare the written response. If requested, the Audit Committee may grant an extension of thirty calendar days. If requested, the City Council may by resolution grant an extension for the management response to be prepared. If a response is not provided, the City Auditor may issue the report without it.

#### **How are audit results communicated to the City Council?**

Once the management response has been incorporated into the draft, the City Auditor's Office produces the final audit report. Approximately ten days before the scheduled Audit Committee meeting, the electronic meeting packet, which includes the agenda and associated audit reports and other items, is sent to the Audit Committee, the Mayor and other Council members, the City Manager, the Executive Committee and program management. This e-packet is also posted to the Audit Committee's page of the City's website.

At the Audit Committee meeting, the audit team members are available to present the audit's scope, methodology and results and answer Audit Committee questions about the work performed. Management representatives should be present to respond to any Audit Committee questions about the management response and action plan. The meeting provides an opportunity for Audit Committee members to obtain a clear understanding of the audit and management's response.

After the Audit Committee meeting, the final report is added to the Audit Reports section of the City Auditor's webpage and to the City's Archived Documents on the City website. In addition, at the Audit Committee's direction or Council request, the audit report may be presented at a City Council meeting.

#### **What if I need help or have further questions?**

The City Auditor and staff are available for any questions you may have regarding the audit process, the Audit Plan or other aspect of the Office's duties.

Please contact us at:

City Auditor's Office	Phone: (480) 312-7756
4021 N. 75 <sup>th</sup> St., Suite 105	Fax: (480) 312-2634
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You may also contact Sharron Walker directly at 312-7867.

## **SCOTTSDALE CITY CHARTER**

### **Article 3. Officers of the city.**

#### **Sec. 1. General provisions.**

The council shall appoint as officers of the city the following: city manager, city treasurer, city clerk, city attorney and city auditor . ...

Officers of the city shall be chosen by the council on the basis of qualifications with special reference to actual experience in, or knowledge of, the duties of the office as set forth in this charter. ...

#### **Sec. 6. City auditor.**

The city auditor shall have the authority to conduct financial and performance audits and investigations of all activities of the city in accordance with applicable government auditing standards, and shall be provided free and open access, except as limited by law, to all city records, personnel, facilities and information necessary to carry out these duties.

## **SCOTTSDALE REVISED CODE**

#### **Sec. 2-117. Establishment; qualifications.**

- (a) The office of city auditor of the city is hereby established. The city auditor shall be designated through appointment by a majority vote of the city council.
- (b) The city auditor shall be a person able to manage a professional audit staff, analyze financial records, evaluate operations for economy, efficiency and program results.
- (c) The city auditor shall not be actively involved in partisan political activities or the political affairs of the city.
- (d) The city auditor shall possess adequate professional proficiency for the job, demonstrated by relevant certifications, such as a certified internal auditor (CIA), certified public accountant (CPA), or a certified management accountant (CMA) or have an advanced degree in a related field with at least five (5) years of experience in government auditing, evaluation or analysis. The city council may appoint an acting city auditor not meeting these qualifications on an interim basis.
- (e) The city auditor shall serve at the pleasure of the city council, but can only be removed by a majority vote of the city council.



- (f) The city auditor shall have such assistants and employees as are necessary for the efficient and effective administration of duties required by the city council and shall have the power to appoint and remove such assistants and employees, as provided by city ordinances and formally adopted policies, and prescribe their duties, scope of authority and qualifications.

**Sec. 2-118. Audit committee.**

- (a) An audit committee is hereby established to consult with the city auditor regarding technical issues, to work to assure maximum coordination between the work of the city auditor and the needs of the city manager, the other charter officers and to perform other duties as required or directed by the city council. The audit committee shall consist of three (3) members of the city council, who shall be appointed by the mayor, with the approval of the city council.
- (b) The audit committee shall meet as needed to perform its duties, but shall meet not less than once quarterly, and shall be responsible for :
  - (1) Reviewing audit reports before the final audit report is issued;
  - (2) Transmitting audit reports to the city council;
  - (3) Monitoring follow up on reported findings to assure corrective action is taken;
  - (4) Reporting to the city council on problem areas as deemed appropriate;
  - (5) Providing oversight of the external audit; and
  - (6) Evaluating the findings and recommendations of the peer review as required by applicable government auditing standards.

**Sec. 2-119. Scope of audits.**

- (a) The city auditor shall have the authority to conduct financial and performance audits of all departments, offices, boards, activities and agencies of the city to independently and objectively determine whether:
  - (1) Activities and programs being implemented have been authorized by the city council, state law or applicable federal law or regulations and are being conducted and funds expended in compliance with applicable laws;

- (2) The department, office or agency is acquiring, managing, protecting, and using its resources, including funds, property, equipment, space, and personnel, economically, efficiently, and effectively and in a manner consistent with the objectives intended by the city council or enabling legislation;
  - (3) The entity, activities, programs, functions or policies are effective, including the identification of causes of inefficiencies or uneconomical practices;
  - (4) The desired result or benefits are being achieved;
  - (5) Financial and other reports are being provided that disclose fairly, accurately and fully all information that is required by law, that is necessary to ascertain the nature and scope of programs and activities and that is necessary to establish a proper basis for evaluating the programs and activities, including the collection of, accounting for and depositing of revenues and other resources;
  - (6) Indications of fraud, abuse or illegal acts are valid and need further investigation; and
  - (7) Management has established adequate operating and administrative procedures and practices, systems or accounting internal control systems and internal management controls.
- (b) Audits shall be conducted in accordance with generally accepted government auditing standards.
- (c) The city auditor shall not conduct or supervise an audit of an activity for which he/she was responsible or within which he/she was employed during the preceding two (2) years.

**Sec. 2-120. Annual audit plan.**

- (a) At least annually, the city auditor shall submit an audit plan to the audit committee for review and recommendation, and the city council for review and approval. The plan shall include the divisions, departments, offices, boards, activities and agencies scheduled for audit during the year. This plan may be amended during the year after review by the audit committee. Additionally, the city auditor may spontaneously initiate and conduct any other audit deemed necessary or as directed by the city council.
- (b) In the selection of audit areas, the determination of audit scope and the timing of audit work, the city auditor should consult with federal and state auditors and independent auditors so that the desirable audit coverage is provided and audit effort may be properly coordinated. The city auditor should consult with the city manager

and other charter officers in a similar fashion to enhance audit coverage and improve audit coordination.

- (c) Except for audits provided in Code to be conducted by tax audit or the city treasurer, only the city auditor may conduct audits of city divisions, departments, offices, boards, activities and agencies. However, special audits may be requested through the process established in section 2-121.

**Sec. 2-121. Special audits.**

- (a) A charter officer may request the city auditor to perform special audits that are not included in the annual audit plan. After consultation with the audit committee, a special audit requested by a charter officer may become an amendment to the annual audit plan.
- (b) The city auditor shall submit the report of the special audit to the city manager, the charter officer who requested the audit, and the audit committee.

**Sec. 2-122. Funding.**

Sufficient funds shall be provided to carry out the responsibilities specified herein, including funds for continuing professional education necessary to maintain required professional certifications for the city auditor and the auditor's employees. The city auditor's salary shall be set by the city council and reviewed annually. The audit committee shall make recommendations to the city council concerning the city auditor's annual review.

**Sec. 2-123. Records.**

- (a) The city auditor shall retain for at least three (3) years a complete file of each audit report and each report of other examinations, investigations, surveys and reviews made under city council authority. The file should include audit work papers, including all draft reports, and other supportive material directly pertaining to the final audit report.
- (b) The city auditor's working papers and audit files are not public records and are exempt from Arizona Revised Statutes, Title 39, Chapter 1. However, any final audit report prepared for or presented to the city council are public records subject to Arizona Revised Statutes, Title 39, Chapter 1.

**Sec. 2-124. Access to records and property.**

- (a) All officers and employees of the city shall provide the city auditor free and open access as needed to conduct an audit or otherwise perform audit duties:
  - 1) To requested information and records within their custody regarding powers, duties, activities, organization, property, financial transactions and methods of business.
  - 2) To all property, equipment and facilities within their custody.
- (b) The city council, and every board, commission or other public body established by the city council, shall provide the city auditor free and open access, as needed to conduct an audit or otherwise perform audit duties, to the minutes of any executive session of the council, board, commission or other public body.
- (c) If city officers, officials or employees fail to provide the city auditor with the access described in sections 2-124(a) and (b), the city auditor may initiate a search or obtain the records except as otherwise limited by law.
- (d) Pursuant to section 2-198 of this Code, the city auditor shall have access to contractor and subcontractor records and personnel as necessary to determine performance of a city contract.
- (e) The city council's approval of the city auditor's annual audit plan includes the authorization provided in Appendix C, section 510(b) of this Code permitting the city auditor to examine any return or any audit of a specific taxpayer if such examination is necessary to complete an audit included in the annual audit plan. The city auditor shall maintain the confidentiality of such taxpayer information in accordance with Appendix C, Section 510 of this Code.

**Sec. 2-125. Agency response.**

- (a) A final draft of the audit report will be forwarded to the audited agency and the affected charter officer for review and comment regarding factual content before it is released. The agency must respond in writing specifying agreement with audit findings and recommendations or reasons for disagreement with findings and/or recommendations, plans for implementing solutions to identified problems and a time table to complete such activities. The city auditor will include the full text of the agency's response in the report. If no response is received, the city auditor will note that fact in the transmittal letter and will release the audit report.
- (b) The agency response must be filed with the office of the city auditor

within fifteen (15) calendar days from the date of the agency's receipt of the final draft. Upon the request of the agency, the city auditor may grant a one-time extension of the time to respond up to, but not exceeding, fifteen (15) calendar days. The audit committee, at the request of the agency, may grant an extension of up to, but not exceeding, thirty (30) calendar days, either in addition to an extension granted by the city auditor, or following the denial of an extension by the city auditor. The city council may by resolution also grant extensions of time for agency response.

- (c) Agency, as used in this section, means the department, office, board or agency that is the subject of the audit or that is responsible for the activity audited, as applicable.

**Sec. 2-126. Audit reports to city council.**

- (a) Each audit will result in a written report.
- (b) The city auditor shall submit each audit report to the city council and shall transmit a copy of each report to the city manager. A copy shall be filed with the city clerk and the city public library.
- (c) In accordance with applicable government auditing standards, the audit report shall contain relevant background information and findings and recommendations and shall communicate results to the audit committee, city council and management.
- (d) Each audit report shall be retained and disposed of in accordance with the records retention and disposition schedule established pursuant to Arizona Revised Statutes section 41-151.14.

**Sec. 2-127. Report of irregularities.**

If the city auditor becomes aware of abuse or illegal acts or indications of such acts that could affect the city, the city auditor shall report the irregularities in writing to the city council or, in the case of a special audit, to the city manager and to the city council. If it appears that the irregularity is criminal in nature, the city auditor shall promptly notify the appropriate prosecutorial or law enforcement agency in addition to those officials previously cited.

**Sec. 2-128. Contract auditors, consultants and experts.**

Within budgetary limitations, the city auditor may obtain the services of certified or registered public accountants, qualified management consultants, or other similar professional experts necessary to assist the city auditor in the performance of his/her duties.



An audit that is performed by contract must be conducted by persons who have no financial interests in the affairs of the city or its officers. The city auditor will coordinate and monitor auditing performed by certified public accounting firms or other organizations employed under contract by the city to assist with audit related activities. Contracting for these audits will be awarded in accordance with established city contracting procedures.

**Sec. 2-129. Peer review.**

- (a) The audit activities of the city auditor's office shall be subject to peer review in accordance with applicable government auditing standards. The peer review shall be completed by a professional, nonpartisan objective group utilizing guidelines endorsed by the Association of Local Government Auditors or the U.S. Government Accountability Office. A copy of the written report of this independent review shall be furnished to each member of the city council.
- (b) The peer review will use applicable government auditing standards to evaluate the quality of audit effort and reporting. Specific peer review areas shall include staff qualifications, adequacy of planning and supervision, sufficiency of workpaper preparation and evidence, and the adequacy of systems for reviewing internal controls, fraud and abuse, program compliance, and automated systems. The peer review will also assess the form, distribution, timeliness, content, and presentation of internal audit reports. The city shall pay for costs of the peer review from the city auditor's budget.

**Sec. 2-130. Audit Follow-up.**

The city auditor shall follow-up on audit recommendations and the related management action plans to determine if corrective action has been taken. The city auditor will request periodic status reports from audited agencies regarding actions taken to address audit recommendations and may perform review activities as deemed necessary to report to the audit committee on the status of corrective actions.



## **MISSION STATEMENT**

*The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity.*